

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended July 31, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-8061

FREQUENCY ELECTRONICS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-1986657

(I.R.S. Employer Identification No.)

55 CHARLES LINDBERGH BLVD., MITCHEL FIELD, N.Y.

(Address of principal executive offices)

11553

(Zip Code)

Registrant's telephone number, including area code: 516-794-4500

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS:

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13, or 15 (d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by court. Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of September 6, 1996 - 4,858,390.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Condensed Balance Sheets

	July 31, 1996 (UNAUDITED) (In thousands)	April 30, 1996 (NOTE A)
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 380	\$15,915
Marketable Securities	20,667	5,632
Accounts receivable, net (NOTE B)	13,976	13,415
Inventories (NOTE C)	10,321	10,281
Prepaid and other	1,145	1,026
	-----	-----
Total current assets	46,489	46,269
Property, plant and equipment, net	8,659	8,839
Investment in direct finance lease	9,642	9,607
Other assets	4,063	4,055
	-----	-----
Total assets	\$68,853 =====	\$68,770 =====

See accompanying notes to consolidated condensed financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Consolidated Condensed Balance Sheets (Continued)

	July 31, 1996 (UNAUDITED)	April 30, 1996 (NOTE A)
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Current maturities of long-term debt	\$ 9,750	\$ 750
Accounts payable - trade	778	1,379
Accrued liabilities and other	2,051	2,341
	-----	-----
Total current liabilities	12,579	4,470
Long term debt net of current maturities	2,250	11,438
Other	3,549	3,439
	-----	-----
Total liabilities	18,378	19,347
Stockholders' equity:		
Preferred stock - \$1.00 par value	-0-	-0-
Common stock - \$1.00 par value	6,006	6,006
Additional paid - in capital	35,009	35,024
Retained earnings	17,204	16,265
	-----	-----
	58,219	57,295
Common stock reacquired and held in treasury		
- at cost, 1,159,905 shares		
at July 31 and April 30, 1996	(5,075)	(5,075)
Unamortized ESOP debt	(1,875)	(2,000)
Notes receivable - common stock	(724)	(740)
Unrealized holding gain	38	56
Unearned compensation	(108)	(113)
	-----	-----
Total stockholders' equity	50,475	49,423
	-----	-----
Total liabilities and stockholders' equity	\$68,853	\$68,770
	=====	=====

See accompanying notes to consolidated condensed financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Operations
Three Months Ended July 31,
(Unaudited)

	1996 (In thousands except per share data)	1995
Net Sales	\$ 6,124	\$ 5,338
	-----	-----
Cost of sales	3,887	4,001
Selling and administrative expenses	1,306	1,484
Research and development expense	360	163
	-----	-----
Total operating expenses	5,553	5,648
	-----	-----
Operating profit (loss)	571	(310)
Other income (expense):		
Interest income	337	322
Interest expense	(223)	(258)
Other income, net	319	523
	-----	-----
Earnings before provision for income taxes	1,004	227
Income tax provision	65	21
	-----	-----
Net earnings	\$ 939	\$ 256
	=====	=====
Net earnings per common share	\$.20	\$.05
	=====	=====
Weighted average common shares outstanding	4,669,175	5,052,495
	=====	=====

See accompanying notes to consolidated condensed financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
Three Months Ended July 31,
(Unaudited)

	1996 (In thousands)	1995
Cash flows from operating activities:		
Net earnings	\$ 939	\$ 256
Non-cash charges to earnings	408	376
Net changes in assets and liabilities	(1,619)	603
	-----	-----
Net cash provided by (used in) operating activities	(272)	1,235
Cash flows from investing activities:		
(Purchase) sale of marketable securities	(15,053)	3,236
Other - net	(22)	509
	-----	-----
Net cash provided by (used in) investing activities	(15,075)	3,745
Net cash used in financing activities	(188)	(242)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(15,535)	4,738
Cash and cash equivalents at beginning of period	15,915	4,291
	-----	-----
Cash and cash equivalents at end of period	\$ 380	\$ 9,029
	=====	=====

See accompanying notes to consolidated condensed financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements
(Unaudited)

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of the Company, the accompanying unaudited consolidated condensed interim financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position of the Company as of July 31, 1996 and the results of its operations and cash flows for the three months ended July 31, 1996 and 1995. The April 30, 1996 consolidated condensed balance sheet was derived from audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 1996 Annual Report to Stockholders. The results of operations for such interim periods are not necessarily indicative of the operating results for the full year.

NOTE B - ACCOUNTS RECEIVABLE

Accounts receivable at July 31, 1996 and April 30, 1996 include costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis of approximately \$6,469,000 and \$5,315,000, respectively. Such amounts represent revenue recognized on long-term contracts that had not been billed at the balance sheet dates. Such amounts are billed pursuant to contract terms.

NOTE C - INVENTORIES

Inventories, which are reported net of reserves of \$940,000 at July 31 and April 30, 1996, consist of the following:

	July 31	April 30
	(In thousands)	
Raw materials and Component parts	\$ 1,848	\$ 1,998
Work in progress	8,473	8,283
	-----	-----
	<u>\$10,321</u>	<u>\$10,281</u>
	=====	=====

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Item 2

Management's Discussion and Analysis of Financial Condition
and Results of Operations

RESULTS OF OPERATIONS

Comparative details of results of operations for the three months ended July 31:

(Dollar amounts in thousands)
NM = Not meaningful

	Three months ended July 31,		%
	1996	1995	change
	-----	-----	-----
Net Sales			
US Government	\$ 2,699	\$ 3,516	(23%)
Commercial	3,425	1,822	88%
	-----	-----	
	6,124	5,338	15%
Cost of Sales	3,887	4,001	(3%)
Selling and administrative expense	1,306	1,484	(12%)
Research and development expense	360	163	121%
	-----	-----	
Operating income (loss)	571	(310)	NM
Non-operating income- net	433	587	(26%)
Net earnings	\$ 939	\$ 256	267%
	=====	=====	

Operating income for the fiscal quarter ended July 31, 1996 improved by \$881 over the comparable period of fiscal 1996; net earnings increased by \$683. These results were achieved through a 15% increase in sales over the quarter ended July 31, 1995, coupled with reduced costs in all operating categories except for legal costs related to the Company's legal proceedings.

As illustrated in the table above, commercial sales continue to grow, increasing by 88% in the fiscal 1997 period over the comparable fiscal 1996 period. As a percentage of total sales, commercial sales have increased to 56% in the three months ended July 31, 1996 from 34% in the comparable fiscal 1996 quarter. The Company expects that revenue from commercial projects will continue to grow and that commercial sales will comprise a greater portion of total revenues in the future.

Gross margins for the three months ended July 31, 1996 have increased to 37% as compared to 25% for the fiscal 1996 period. These results have been obtained through cost reductions primarily in the areas of personnel and compensation coupled with operational efficiencies and product mix (commercial versus government contracts). With the current mix of projects and the new contract bookings, the Company expects margins to remain at or above the current level for the balance of fiscal 1997.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

Selling and administrative costs declined by \$178 or 12% for the quarter ended July 31, 1996, over the comparable fiscal 1996 period. A decrease of \$236 was achieved through a reduction in the number of personnel, reduced insurance costs and improved operating efficiencies which were partially offset by an increase of \$58 in legal fees related to the Company's ongoing litigation with the government and related actions. The Company is unable to predict the future level of legal costs for any specific period as this is dependent on factors beyond its control. Excluding legal costs, the ratio of selling and administrative expenses to net sales is expected to decrease as sales increase.

Research and development costs in the fiscal 1997 period increased by \$197 over the comparable three month period ended July 31, 1995. This increase is the result of intensified efforts to develop new products and to enhance functional capabilities of existing products which will serve primarily the Company's commercial customers. The Company expects to continue to invest in research and development at approximately the same rate for the balance of fiscal 1997 and for the foreseeable future.

Net non-operating income and expense decreased by \$154 in the three months ended July 31, 1996 from the comparable 1996 fiscal period. The decrease is attributable to reduced rental income and increased property tax charges against rental property. Interest income increased by \$15 in the fiscal 1997 quarter over the comparable fiscal 1996 quarter. This is the result of interest income earned on a \$1.8 million mortgage note which began in August 1995 offset by reduced interest income on investments. The reduced interest income from investments is due to lower interest rates even though cash, cash equivalents and short-term investments have increased. Interest expense decreased by \$35 (14%) in the fiscal 1997 quarter compared to the 1996 fiscal quarter. This was the result of both lower interest rates and declining long-term debt balances as the Company makes scheduled principal payments. Although the Company is unable to predict the future levels of interest rates, at current rates the Company anticipates that investment income will continue to increase and interest expense will continue to decrease when compared to earlier fiscal periods. Other income, which consists principally of rental income under a long-term lease, should increase modestly for the balance of fiscal 1997 after the adjustments to earnings cited above.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a strong working capital position of \$33.9 million at July 31, 1996 although this is a decrease from the working capital level at April 30, 1996 of \$41.8 million. This decline is wholly attributable to the reclassification to current liabilities of the real estate construction loan of \$9 million which is due on July 31, 1997. Excluding that reclassification, working capital would have increased by \$1.1 million from the level at the end of the fiscal year. Included in working capital at July 31, 1996 is \$21 million of cash, cash equivalents and marketable securities which are readily convertible to cash should the need arise.

Net cash used in operating activities for the three months ended July 31, 1996, was \$272 compared to net cash provided by operating activities of \$1,235 for the comparable fiscal 1996 period. Cash inflows from net earnings and non-cash charges to earnings amounted to \$1,347 but were offset by net changes in the balances of assets and liabilities of \$1,619. Accounts receivable increased by \$561 principally due to an increase in costs and estimated earnings in excess of billings on uncompleted contracts of \$1,154 offset by collections on billed receivables. Payments were made against accounts payable for purchases under a procurement contract which is winding down. Cash payments were also made against accrued vacation pay to coincide with the Company's annual mid-summer plant shutdown. The Company anticipates that operating activities for all of fiscal 1997 will generate positive cash flow.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

Net cash used in investing activities for the three months ended July 31, 1996, was \$15,075. Of this amount, \$15,053 was used to acquire certain U.S. government and agency securities. The Company may continue to acquire or redeem marketable securities as dictated by its investment strategies. The Company is continuing the installation of new computer software which it expects to complete during the second quarter of fiscal 1997 at a total capitalized cost of less than \$500. The Company has no other material commitments for capital expenditures.

Net cash used in financing activities for the three months ended July 31, 1996, was \$188 which was used to make regularly scheduled long-term debt payments. On July 31, 1997, the Company is obligated to repay the \$9,000 real estate construction loan which was used to finance the building which is leased to a third party under a direct finance lease. The Company is evaluating its options which may include paying the loan out of current assets, refinancing the loan or some combination thereof.

The Company will continue to expend its resources and efforts to develop hardware for commercial satellite programs and commercial ground communication and navigation systems which management believes will result in future growth and continued profitability. Internally generated cash will be adequate to fund development efforts in these markets.

At July 31, 1996, the Company's total backlog amounted to approximately \$20 million of which approximately \$17 million is funded. This is compared to the approximately \$15 million backlog at April 30, 1996. The backlog of commercial projects approximates \$14 million at July 31, 1996.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

The statements contained in this release which are forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those set forth herein, as more fully described in the Company's Annual Report on Form 10K filed with the Securities and Exchange Commission.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

PART II

ITEM 1 - Legal Proceedings

On November 17, 1993, Registrant was indicted on criminal charges alleging conspiracy and fraud in connection with six contracts for which Registrant was a subcontractor. In addition, two derivative actions have been filed against the Board of Directors essentially seeking recovery on behalf of the Company for any losses it incurs as a result of the indictment.

On December 14, 1993, Registrant was notified by the U.S. Department of the Air Force that it had been suspended from contracting with any agency of the government. Certain exceptions will apply if a compelling reason exists. The suspension is temporary subject to the outcome of the legal proceedings in connection with the indictment.

In March 1994, a qui tam action was filed against the Registrant and its former chief executive officer and, in July 1995, a separate qui tam action was served upon the Registrant and certain employees of Registrant.

The Company and the individual defendants have pleaded not guilty to all actions and are vigorously contesting all charges.

For all items noted above, reference is made to Item 3 - Legal Proceedings of Registrant's Annual Report on Form 10K for the year ended April 30, 1996 on file with the Securities and Exchange Commission.

ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) No reports on Form 8-K were filed during the quarter ended July 31, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FREQUENCY ELECTRONICS, INC.
(Registrant)

Date: September 13, 1996

BY /s/ Joseph P. Franklin

Joseph P. Franklin
Chief Executive Officer and
Chief Financial Officer

Date: September 13, 1996

BY /s/ Alan Miller

Alan Miller
Controller

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3-MOS

APR-30-1997
MAY-1-1996
JUL-31-1996
380
20,667
14,459
483
10,321
46,489
24,099
15,440
68,853
12,579
12,000
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0
6,006
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6,124
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2
223
1,004
65
939
0
0
0
939
.20
.20